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Efficiency Project

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE, Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION OF)
TUCSON ELECTRIC POWER COMPANY FOR)
APPROVAL OF ITS 2011-2012 ENERGY)
EFFICIENCY IMPLEMENTATION PLAN)

DOCKET NO. E-01933A-11-0055

NOTICE OF FILING DIRECT
TESTIMONY OF JEFFREY
SCHLEGEL ON BEHALF OF
SOUTHWEST ENERGY
EFFICIENCY PROJECT

Southwest Energy Efficiency Project ("SWEEP"), through its undersigned counsel,
hereby provides notice that it has this day filed the written direct testimony of Jeff
Schlegel.

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Arizona Corporation Commission

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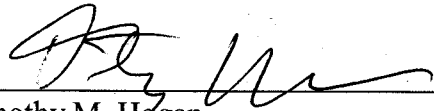
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RESPECTFULLY SUBMITTED this 15th day of June, 2012.

ARIZONA CENTER FOR LAW IN
THE PUBLIC INTEREST

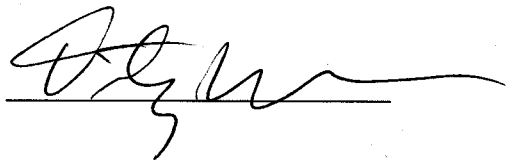
By 
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE, Chairman
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**IN THE MATTER OF THE APPLICATION OF
TUCSON ELECTRIC POWER COMPANY FOR
APPROVAL OF ITS 2011-2012 ENERGY
EFFICIENCY IMPLEMENTATION PLAN**

DOCKET NO. E-01933A-11-0055

Direct Testimony of
Jeffrey Schlegel
Southwest Energy Efficiency Project

Introduction

Q. Please state your name and business address.

A. My name is Jeff Schlegel. My business address is 1167 W. Samalayuca Drive, Tucson, Arizona 85704-3224.

Q. For whom are you testifying?

A. I am testifying on behalf of the Southwest Energy Efficiency Project (SWEET).

Q. Please describe SWEET.

A. SWEET is a public interest organization dedicated to advancing energy efficiency as a means of promoting customer benefits, economic prosperity, and environmental protection in the six states of Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming. SWEET works on state legislation; analysis of energy efficiency opportunities and potential; expansion of state and utility energy efficiency programs as well as the design of these programs; building energy codes and appliance standards; and voluntary partnerships with the private sector to advance energy efficiency. SWEET collaborates with utilities, state agencies, environmental groups, universities, and energy specialists in the region. SWEET is funded by foundations, the U.S. Department of Energy, and the U.S. Environmental Protection Agency. I am the Arizona Representative for SWEET.

Q. What are your professional qualifications?

A. I am an independent consultant specializing in policy analysis, evaluation and research, planning, and program design for energy efficiency programs and clean energy resources. I consult for public groups and government agencies; and I have been working in the field for over 25 years. In addition to my responsibilities with SWEET, I am working or have worked extensively in many states that have effective energy efficiency programs, including California, Connecticut, Massachusetts, New Jersey, Vermont, and Wisconsin. In 1997 I received the Outstanding Achievement Award for the International Energy Program Evaluation Conference. I have testified before the Arizona Corporation Commission in many proceedings.

Q. What is the purpose of your testimony?

A. In my testimony I will summarize the public interest in increasing electric energy efficiency; describe the significant consumer, economic, and environmental benefits that Tucson Electric Power Company's (TEP) energy efficiency programs have achieved; explain why TEP's existing energy efficiency offerings have been suspended in 2012; explain why new customer money-and-energy-saving opportunities have been indefinitely delayed; explain SWEET's support for the

1 Updated Modified Plan as a framework for restoring existing and establishing new
2 cost-effective energy efficiency opportunities for customers; describe SWEEP's
3 opposition to TEP's request for a waiver to the Electric Energy Efficiency Standard
4 and plans not to file a 2013 Energy Efficiency Implementation Plan; SWEEP's
5 concerns about the bill impact for small commercial customers relative to the costs
6 that other commercial and industrial customers would experience; and SWEEP's
7 support of the proposed performance incentive as an interim incentive only and one
8 that is not precedent setting.

9 **The Public Interest in Increasing Electric Energy Efficiency**

10
11 Q. What is the public interest in increasing electric energy efficiency?
12

13 A. Electric energy efficiency is in the public interest. Increasing energy efficiency will
14 provide significant and cost-effective benefits for all TEP customers, the electric
15 system, the economy, and the environment. Electric energy efficiency is a reliable
16 energy resource that is less expensive than other available energy resources.
17 Consequently, increasing energy efficiency will save consumers and businesses
18 money through lower electric bills and the deferral of unnecessary infrastructure,
19 resulting in lower total costs for customers. Increasing energy efficiency also reduces
20 load growth; diversifies energy resources; enhances the reliability of the electricity
21 grid; reduces the amount of water used for power generation; reduces air pollution;
22 creates jobs that cannot be outsourced; and improves the economy. In addition,
23 meeting a portion of load growth through increased energy efficiency can help to
24 relieve system constraints in load pockets. By reducing electricity demand, energy
25 efficiency mitigates electricity and fuel price increases and reduces customer
26 vulnerability and exposure to price volatility. Energy efficiency does not rely on any
27 fuel and is not subject to shortages of supply or increased prices for natural gas or
28 other fuels.
29

30 **The Status of TEP's Energy Efficiency Offerings for Customers**

31
32 Q. How long has TEP offered energy efficiency opportunities for customers?
33

34 A. TEP has offered money-and-energy-saving opportunities for customers since 1992.
35 These programs have been recognized as best practices, including TEP's residential
36 new construction program, which has served as a model for other electric utilities.
37 TEP has also been recognized for its innovative offerings, including its Shade Tree
38 program.
39

40 Q. At what levels has TEP invested in energy efficiency?
41

42 A. From 2009-2011 TEP invested more than \$33.6 million in energy efficiency (EE).
43 Over this period, TEP's annual commitment to EE programs grew from \$7.4 million
44 in 2009 to \$13.0 million in 2010 and \$13.2 million in 2011.
45

1 Q. What have TEP's EE programs accomplished?

2
3 A. TEP's cost-effective programs have delivered significant economic, energy and
4 environmental benefits for customers. For example, from 2009-2011, TEP reports
5 that its EE portfolio delivered:

- 6 • Net benefits exceeding \$150 million dollars;
- 7 • Lifetime savings exceeding 3.5 GWh;
- 8 • Lifetime savings exceeding 2.2 million therms;
- 9 • Lifetime water reductions exceeding 1.5 billion gallons;
- 10 • Lifetime SOx reductions exceeding 3,700 tons; and
- 11 • Lifetime NOx reductions exceeding 4,900 tons.

12
13 Q. What EE plans has TEP proposed recently?

14
15 A. In January 2011, TEP filed a 2011-2012 EE Implementation Plan with the
16 Commission. This two-year Plan proposed the launch of new and the expansion and
17 continuation of existing customer energy-saving opportunities. The Plan anticipated
18 delivery of cumulative annual energy savings exceeding 300 GWh and net benefits
19 exceeding \$130 million. The total program investment sought was \$51.1 million:
20 \$23.6 million in 2011 and \$27.5 million in 2012. TEP's proposal also included a
21 request for expedited review and approval with the goal of launching new and
22 expanding existing customer opportunities by June 2011. This expedited review and
23 Commission approval did not occur.

24
25 Q. What new customer opportunities were proposed by TEP in its Plan?

26
27 A. TEP proposed several new cost-effective money-and-energy-saving opportunities for
28 customers. These new opportunities were designed to serve more customers
29 (including small business owners; renters; and schools) and provide new ways for
30 customers to save money and energy. Moreover, new offerings were developed after
31 years of work by TEP ratepayers (including the forty religious institutions that
32 comprise the Pima County Interfaith Council); were strongly supported by TEP
33 ratepayers (as evidenced by the hundreds of handwritten and email communications
34 the Commission received in the implementation plan docket and the public comments
35 made at open meetings concerning the plan); and have been successfully
36 implemented in other Arizona electric utility service territories.

37
38 Proposed new offerings included:

- 39 • A Schools Facilities Program to help schools upgrade their facilities.

- 1 • A Multi-Family Housing Efficiency Program to provide renters, who are
2 notoriously hard-to-engage due to an array of market failures, with savings
3 opportunities.
4
- 5 • A Retro-Commissioning Program to help commercial and industrial customers
6 improve existing building performance.
7
- 8 • A Residential Energy Financing Program to leverage private capital with
9 ratepayer money to help residents implement additional efficiency measures.
10
- 11 • A Bid for Efficiency Pilot Program to spur market competition by engaging third
12 parties to propose energy-saving projects and bid competitively for incentives.
13
- 14 • An Appliance Recycling Program to help customers recycle old, inefficient
15 appliances.
16
- 17 • Additional energy efficiency saving opportunities for small businesses through
18 the Small Business Direct Install Program.
19
- 20 • An Energy Codes Enhancement Program, mirrored after a successful Salt River
21 Project program projected to achieve nearly half a million MWh savings by
22 2020.¹
23

24 Q. What is the status of TEP's 2011-2012 EE Implementation Plan?
25

26 A. TEP's 2011-2012 Plan was considered by the Arizona Corporation Commission at its
27 Open Meeting in January 2012 (after the 2011 program year concluded). At that
28 meeting, and in response to a suggestion from the Company and other stakeholders
29 (including SWEEP), the Commission encouraged interested stakeholders to negotiate
30 a compromise solution to address outstanding issues in TEP's Plan, including TEP's
31 lost fixed cost revenue recovery mechanism (the "Authorized Revenue Recovery
32 True-up" mechanism or AART).
33

34 Acting on the Commission's request, interested stakeholders including TEP,
35 Commission Staff, the Residential Utility Consumer Office (RUCO), Freeport
36 McMoRan Copper & Gold, Inc., Arizonans for Electric Choice and Competition
37 (AECC), and SWEEP met over several days to contemplate a mutually-agreeable
38 compromise. The end product of these conversations was the "Modified Plan," which
39 the Commission considered at its March 2012 utilities Open Meeting. At that Open
40 Meeting, the Commission elected to hold evidentiary hearings on the matter,
41 effectively delaying consideration of the Modified Plan until a later date. TEP has
42 since updated the Modified Plan to address issues raised by AECC and the lapse in

¹ See "In Support of Clean & Efficient Energy: SRP Position on Model Energy Codes":
<http://www.srpnet.com/environment/earthwise/pdfx/spp/ModelEnergyCodes2011.pdf>

1 time. This revised plan is called the "Updated Modified Plan," which was filed on
2 May 2, 2012.
3
4

5 Q. What is the current status of TEP's energy efficiency programs?
6

7 A. Following the Commission Open Meeting in March 2012, many of TEP's existing
8 programs serving residential and commercial customers were suspended. In
9 addition, TEP's plans to launch new programs and opportunities to serve more
10 customers were indefinitely delayed. Compared with 2011 levels, existing programs
11 were also significantly downsized. For example, overall efficiency investment was
12 halved from \$11.3 million in 2011 to \$5.6 million in 2012, and investment in almost
13 every existing EE program was slashed dramatically (with the exception of low
14 income weatherization). EE program cuts ranged between 12 and 72%, with the
15 greatest changes to programs serving business and commercial customers. SWEEP
16 has prepared a table as "Attachment A" describing these cuts.
17

18 Q. Why were existing programs suspended and/or cut in 2012?
19

20 A. Two factors contributed to the suspension and cuts to existing programs:
21

22 1. The Commission approved new EE programs and expanded program budgets for
23 TEP at several points in the 2010-2011 timeframe, yet the adjustor mechanism to
24 collect the Commission-approved EE program funding from customers has not been
25 reset to accommodate Commission-authorized program funding levels since June 1,
26 2010. TEP complied with Commission authorization by implementing the
27 Commission-approved EE programs and approved budgets, but the ratepayer funding
28 to support the budgets was not collected from ratepayers due to the delay in resetting
29 the adjustor.
30

31 2. The Modified Plan included a proposal to reset this adjustor mechanism. Because
32 Commission action on the Modified Plan has not occurred, and did not occur at the
33 January or March 2012 Open Meetings, this adjustor mechanism has not been reset to
34 adequately fund Commission-authorized programs and program budgets.
35

36 Q. What are SWEEP's concerns about the status of TEP's energy efficiency offerings?
37

38 A. SWEEP is extremely concerned about the deep cuts to TEP's EE programs because
39 these programs deliver important and substantial customer, economic, environmental,
40 and utility system benefits. Notably, these programs help customers reduce their
41 energy bills, and program cuts are occurring at a time when energy bills are highest
42 during the year. These program cutbacks have caused significant disruptions in the
43 demand side management marketplace, leading to a loss of local jobs. In addition,
44 proposed new programs and program expansions, which would provide additional
45 cost-effective benefits to customers, have not been implemented.
46

1 Q. How can this evidentiary hearing process help to resolve these concerns?
2

3 A. SWEEP is very appreciative of the Procedural Order issued by the Commission on
4 May 16, 2011, which established the evidentiary hearing process to consider
5 outstanding issues related to TEP's 2011-2012 EE Implementation Plan. By focusing
6 the scope of the hearings on the TEP's Updated Modified Plan, the hearings could
7 lead to the reinstatement of existing and enhanced EE programs and adequate budgets
8 for TEP customers by fall 2012, consistent with TEP's estimate in its May 2, 2012
9 filing. In contrast, if the EE implementation plan issues were deferred to the TEP rate
10 case, customers would not receive the benefits of the Updated Plan EE programs until
11 mid-2013 at the earliest. Such a delay is not in the interest of TEP customers and
12 would only further disadvantage customers.
13
14

15 **SWEEP's Position on the Updated Modified Plan**
16

17 Q. What is SWEEP's position on the Updated Modified Plan?
18

19 A. SWEEP supports the Updated Modified Plan (with modifications as described below)
20 as a framework that enables restoration of existing and the establishment of new cost-
21 effective opportunities that help customers save money and energy. SWEEP
22 previously supported the Modified Plan developed through discussions with TEP and
23 interested parties, including at the March 2012 Open Meeting.
24

25 Q. Does SWEEP support the lower level of program funding contemplated by the
26 Updated Modified Plan?
27

28 A. In the spirit of compromise, SWEEP is willing to agree to and support a lower level
29 of program funding than was originally proposed by TEP in its initial filing and lower
30 than the level proposed in the Compromise Modified Plan in March 2012 because the
31 Updated Modified Plan's programs and program budgets will:
32

- 33 1. Restore existing cost-effective programs that help ratepayers save money and
34 energy, reduce customer bills, lower total customer costs, create local jobs, and
35 deliver significant consumer and economic benefits.
36
- 37 2. Launch new cost-effective programs and offerings that deliver customer savings.
38

39 Q. Are there any aspects of the Updated Modified Plan that SWEEP does not support?
40

41 A. Yes. SWEEP opposes any waiver of the Electric Energy Efficiency Standard and
42 TEP's request not to file a 2013 EE Plan. In addition, SWEEP is concerned that the
43 Updated Modified Plan results in DSMS customer charges and bill impacts for small
44 commercial customers that are too high relative to the costs that large industrial and
45 large commercial customers would experience.
46

1 Q. Why does SWEEP oppose a waiver of an Electric Energy Efficiency Standard and
2 TEP's request not to file a 2013 EE Plan?

3
4 A. The Electric Energy Efficiency Standard is a cumulative standard, meaning that TEP
5 has the opportunity to catch up to the requirements of the standard over several years.
6 In fact, TEP recently indicated that it plans to be in compliance with the Electric
7 Energy Efficiency Standard by 2016, despite recent cutbacks to programs. Therefore
8 a waiver is simply unnecessary. To that end, TEP should prepare a filing that will
9 propose new energy efficiency programs or program enhancements in 2013 to ensure
10 it continues along a pathway for achievement of the cumulative energy savings
11 requirements set forth in the Standard.

12
13 Furthermore, energy efficiency is the least cost energy resource available and delivers
14 significant and cost-effective benefits for all TEP customers, the electric system, the
15 economy, and the environment. As such, it should be fully pursued in alignment with
16 the Electric Energy Efficiency Standard, as a cumulative requirement, even if a utility
17 may fall short for one or more years along the way. TEP should continue to pursue
18 full compliance with the cumulative standard essentially by catching up over the next
19 few years.

20
21 Q. Regarding the DSMS customer charges and the bill impacts for customer sectors,
22 what are SWEEP's concerns?

23
24 A. SWEEP is concerned that the Updated Modified Plan results in DSMS customer
25 charges and bill impacts for small commercial customers that are high (as a total
26 utility bill % increase) relative to the costs that other commercial and industrial
27 customers would experience. Indeed, Table 4 in TEP's May 2, 2012, filing anticipates
28 an increase in small commercial bills of 1.71%. In comparison, industrial customers
29 will experience a 1.26% increase and commercial customers will experience a 1.60%
30 increase.

31
32 SWEEP could accept the relatively higher total utility bill % increase for small
33 commercial customers, which is only a slightly higher % bill impact than the level
34 that large commercial customers would experience, for the interim period of the
35 Updated Modified Plan, as long as the small commercial customers as a class receive
36 at least the level of EE program funding collected from small commercial customers.
37 In this manner, the small commercial class would be receiving the benefits of the
38 funding collected from their customer class.

39
40 Q. What is SWEEP's position on the proposed performance incentive?

41
42 A. SWEEP supports the performance incentive in the Updated Modified Plan as an
43 interim incentive only and one that is not precedent setting. We also support the
44 revision of this performance incentive as part of the next TEP rate case. Finally,
45 SWEEP has provided other comments on the design of the performance incentive in

1 this and other dockets before the Commission, which SWEEP plans to raise during
2 the TEP rate case.

3

4

Conclusion

5

6

7 Q. Does this conclude your testimony?

8

9 A. Yes.

SWEET ATTACHMENT A
Tucson Electric Power Company
2011-2012 Energy Efficiency Implementation Plan
Docket No. E-01933A-11-0055

Comparison of TEP's Historic Energy Efficiency Investment with 2012 Energy Efficiency Investment Levels

Sector	Program	2011 Actual Spending	2012 Spending Original TEP Proposal	2012 Spending Modified Plan	2012 Revised Budget (SWEET Best Estimate)	% Change: 2011 Actual v 2012 Revised Budget
Residential	Appliance Recycling	--	\$859,533	\$755,095	<i>Postponed</i>	
Residential	Efficient Products	\$1,911,540	\$2,431,495	\$2,453,253	\$1,362,986	-29%
Residential	Existing Homes and Audit Direct Install	\$1,958,421	\$3,514,886	\$2,304,525	\$929,922	-53%
Residential	Low Income Weatherization	\$313,517	\$616,451	\$526,464	\$414,675	32%
Residential	Multi-Family	--	\$169,738	\$181,565	<i>Postponed</i>	
Residential	Residential Energy Financing	--	\$442,645	\$315,405	<i>Postponed</i>	
Residential	Residential New Construction	\$956,018	\$1,766,846	\$1,011,945	\$649,813	-32%
Residential	Shade Trees	\$155,844	\$325,582	\$250,681	\$137,275	-12%
Residential TOTAL		\$5,295,340	\$10,127,176	\$7,798,933	\$3,494,671	-34%
Commercial	Bid for Efficiency	--	\$503,092	\$388,846	<i>Postponed</i>	
Commercial	C&I Comprehensive	\$2,897,741	\$4,285,856	\$3,728,462	\$797,719	-72%
Commercial	CHP Joint Program	--	\$22,000	\$22,000	<i>Postponed</i>	
Commercial	Commercial New Construction	\$598,661	\$406,319	\$515,702	\$253,399	-58%
Commercial	Retro-commissioning	--	\$175,520	\$336,493	<i>Postponed</i>	
Commercial	Schools Facilities	--	\$157,941	\$170,049	<i>Postponed</i>	

Sector	Program	2011 Actual Spending	2012 Spending Original TEP Proposal	2012 Spending Modified Plan	2012 Revised Budget (SWEEP Best Estimate)	% Change: 2011 Actual v 2012 Revised Budget
Commercial	Small Business	\$1,758,322	\$2,921,085	\$2,044,806	\$700,449	-60%
Commercial TOTAL		\$5,254,724	\$8,471,813	\$7,206,358	\$1,751,567	-67%
Behavioral	Behavioral Comprehensive	--	\$1,420,279	\$724,151	<i>Postponed</i>	
Behavioral	Home Energy Reports	\$254,285	\$673,790	\$699,197	\$150,271	-41%
Behavioral TOTAL		\$254,285	\$2,094,069	\$1,423,348	\$150,271	-41%
Support	Codes Support	--	\$75,490	\$73,288	<i>Postponed</i>	
Support	Education and Outreach	\$471,576	\$384,724	\$155,250	\$209,668	-56%
Support TOTAL		\$471,576	\$460,214	\$228,538	\$209,668	-56%
Demand Response	Residential and Small Commercial Direct Load Control	\$695,856	\$184,816	\$167,864	\$44,667	-94%
Demand Response	Commercial Direct Load Control	\$747,900	\$2,751,959	\$1,431,445	\$1,507,066	102%
Demand Response TOTAL		\$1,443,756	\$2,936,775	\$1,599,309	\$1,551,733	7%
EE TOTAL		\$11,275,925	\$21,153,272	\$16,657,177	\$5,606,177	-50%
DSM TOTAL (includes demand response)		\$12,719,681	\$24,090,047	\$18,256,486	\$7,157,910	-44%